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REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE YEAR ENDED 31 DECEMBER 2000 */

*/ An annex contains follow-up actions by the Administration to implement the Board's recommendations for 1999, as well as the comments of the Board.

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CHAPTER I

REPORT OF THE BOARD OF AUDITORS

Summary

The Board of Auditors has audited the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period 1 January to 31 December 2000. The Board has also reviewed the operations of the voluntary funds administered by the High Commissioner at the Headquarters of the Office at Geneva and at offices in Australia, East Timor, Indonesia, Liberia, Myanmar, Pakistan and Serbia for the same period.

The Board's main findings are as follows:

(a) Although UNHCR had succeeded in reducing by $186.5 million the level of current and prior year expenditure for which Sub-Project Monitoring Reports (SPMR) had not been received, there remained a total of $55.5 million outstanding in advances to implementing partners, covering the years 1994 to 2000;

(b) Of the $55.5 million outstanding in advances to implementing partners, $8.5 million related to the year 2000. In addition, the Board identified serious inadequacies in the verification and validation of some $32 million of expenditure incurred by implementing partners and one country denied UNHCR access to accounting records of implementing partners with expenditures totalling $3 million. The Board has over the past years worked closely with UNHCR to help improve accountability and the Board now considers that the uncertainty regarding the expenditure incurred by some implementing partners needs to be reflected in the Board's audit opinion. The Board has therefore qualified its audit opinion based on a limitation of scope in respect of a total of $43.5 million of implementing partner expenditure.

(c) UNHCR had succeeded in securing independent audit certificates to cover $330 million (79 per cent) of expenditures incurred by implementing partners during 1999. Some $90 million of the 1999 expenditure remained uncertified as at May 2001;

(d) Following the identification by OIOS of significant weaknesses in systems operated by implementing partners, UNHCR took action to strengthen controls over 42 major implementing partners;

(e) UNHCR's income has declined by 28 per cent since 1996 and reserves and fund balances have declined by 53 per cent, to $127 million as at 31 December 2000. UNHCR has taken action to limit expenditure levels to the level of expected income;

(f) In its initial appraisal of the Integrated System Project, UNHCR had not quantified and ranked the likely benefits to accrue from the new system, nor had it identified the extent of modification that would be necessary to make the software meet UNHCR's needs;

(g) Although UNHCR had negotiated benefits to offset some of the costs, it had incurred $781,651 expenditure on the purchase of unnecessary modules of its Integrated System Project;

(h) In selecting a contractor to implement the Integrated System Project, UNHCR had rejected a bid of $8.9 million in favour of one of $17.9 million. The more expensive bid was judged just three percentage points better than the lower bid;

(i) After some three years and expenditure of $8.7 million against a total budget of $34 million, the Integrated System Project remains unoperational;

(j) In some countries visited by the Board, UNHCR engaged in activities such as infrastructure development, including road building and bridge construction, designed to assist the whole population rather than focus on specific needs of refugees; and

(k) UNHCR had yet to establish a reliable system for establishing accurate information on the size and characteristics of the refugee population;

The Board made recommendations to improve the monitoring of expenditures incurred by implementing partners; strengthen project management of the Integrated System Project; and focus activities more directly on the needs of refugees.

A list of the Board's main recommendations is included in paragraph 11 of the present report.

A. Introduction

1. In accordance with paragraph 22 of the Statute of the Office of the United Nations High Commissioner for Refugees (UNHCR), the Board of Auditors has audited the financial statements of the voluntary funds administered by the High Commissioner for the period from 1 January to 31 December 2000. The audit was conducted in accordance with article XII of the Financial Regulations of the United Nations and the annex thereto and with the Common Auditing Standards adopted by the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those auditing standards require that the Board plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the expenditures recorded in the financial statements for the period from 1 January to 31 December 2000 had been incurred for the purposes approved by the Executive Committee of UNHCR; whether income and expenditures were properly classified and recorded in accordance with the Financial Regulations and Rules; and whether the financial statements of the voluntary funds administered by the High Commissioner for Refugees presented fairly the financial position as at 31 December 2000. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent the Board considered necessary to form an opinion on the financial statements.

3. The audit was carried out at the UNHCR headquarters at Geneva and at its offices in Australia, East Timor, Indonesia, Liberia, Myanmar, Pakistan and Serbia.

4. In addition to the audit of the accounts and financial transactions, the Board carried out reviews under article 12.5 of the Financial Regulations of the United Nations. In 2000, the Board reviewed the status of UNHCR's Integrated System Project, prioritisation of core mandate activities, the quality of performance reporting and specific human resource management issues. The Board additionally reviewed the effectiveness of the internal audit of UNHCR, which is undertaken by the Office of Internal Oversight Services. The Board concluded that the internal audit service was generally satisfactory and the present report recognises those areas where the Board relied on the work of OIOS. The Board has also reviewed the adequacy of internal controls operating at UNHCR headquarters and in the field.

5. The Board continued its practice of reporting the results of specific audits through audit observations and management letters containing audit findings and recommendations to the Administration. The practice allowed an ongoing dialogue with the Administration on issues arising from the audit.

6. The present report covers matters which, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations on all matters contained in the present report were communicated to UNHCR. The Administration confirmed the facts on which the Board's observations and conclusions were based and has provided explanations and answers to the Board's queries. The report is divided into two parts, covering the audit of financial issues and management issues, respectively.

7. The Board's main recommendations are reported in paragraph 11 below. The detailed findings are discussed in paragraphs 13 to 109.

1. Previous recommendations not fully implemented

8. In accordance with section A, paragraph 7, of General Assembly resolution 51/225 of 3 April 1997, the Board has highlighted separately below those recommendations that have not been fully implemented by UNHCR. The Board has indicated the current stages of implementation in the present report. The years shown in parentheses, starting from 1995, are those in which the Board recommended that the Administration should:

(a) Make the preparation of work plans an integral part of the project-planning and monitoring process (1995, 1996, 1998, and 1999); and,

(b) Ensure complete and accurate disclosure of non-expendable property and conduct physical stock checks on a regular basis (1996, 1997, 1998 and 1999).

9. On recommendation (a), the Board noted that UNHCR programme planning in the field offices still needed improvement. Regarding recommendation (b), the Board noted continuing problems with the management of non-expendable property. The physical check of non-expendable property at three field offices covered only $650,000 of the total property valued at $11.1 million and information supplied to headquarters had understated the property value by $6.4 million.

10. In accordance with General Assembly resolution 48/216 B of 23 December 1993, the Board also reviewed the measures taken by the Administration to implement the recommendations made by the Board in its report for the year ended 31 December 1999. Details of actions taken and the comments of the Board are outlined in the annex to the present report.

2. Main Recommendations

11. In its present report, the Board recommends that UNHCR should:

(a) strengthen its oversight of field offices to ensure that they undertake a thorough verification of Sub-project Monitoring Reports, including the verification of supporting documentation and bank statements (para. 30);

(b) ensure that field offices review audit certificates received in respect of projects and follow up any significant issues arising (para. 38);

(c) establish for the Integrated System Project clearly defined, ranked benefits that are quantified as far as possible, in order to establish realistic milestones against which progress can be monitored (para. 64);

(d) establish and maintain a single line of project management through which staff report on all aspects of the Integrated System Project development (para. 81);

(e) review the appropriateness of engaging in projects which are not of direct assistance to refugees, and routinely set clear milestones against which to measure progress and assess when its mission was complete (para. 97);

(f) establish a suitable system to ensure that accurate information is maintained on the size and characteristics of the refugee population (para. 100); and

(g) include clearly stated and quantified objectives and outputs in sub-projects agreements and produce workplans incorporating key milestones and target dates (para. 103).

12. The Board's other recommendations are presented in paragraphs 53, 70, 87, 90, 105 and 107.

B. Financial issues

1. Financial statements

United Nations Accounting Standards

13. The Board assessed the extent to which the UNHCR financial statements for the year ended 31 December 2000 conformed to the United Nations Accounting Standards. The review indicated that the financial statements were generally consistent with the standards.

2. Monitoring and control of implementing partners

Advances to implementing partners

14. UNHCR raises an obligation when it issues a Letter of Instruction to the Programme Manager confirming the initial funding level of project assistance for the financial period. The amounts obligated are revised during the financial year as the level of donor contributions becomes clearer. For projects with implementing partners UNHCR signs a sub-project agreement setting out the budget and a plan of cash advances that UNHCR will make to the partner. Actual advances depend on the progress achieved and level of expenditures reported by the partner in quarterly Sub-Project Monitoring Reports (SPMR). The submission of the SPMR is a prerequisite to receiving any further cash advances. UNHCR controls advances to the implementing partners through a Project Expenditure Control Account (X21) that is cleared once the implementing partners submit the SPMRs. Clearance of the X21 Account enables UNHCR to charge the various sector-activities under which the implementing partners spent the monies given them. Implementing partner expenditure reported in the accounts therefore represents the total of the amounts agreed within Letters of Instruction during the year regardless of whether or not the funds have been advanced or disbursed. At the year end any commitments to the implementing partners for which no advances have been made are disclosed as unliquidated obligations.

15. Since 1996, the Board has in a number of ways encouraged UNHCR to review the system of recording expenditure incurred by implementing partners, to avoid overstatement of expenditure and understatement of assets. In 1998, UNHCR acknowledged that the existing policy of recording obligations at Headquarters could potentially result in an over-accrual of funds and agreed to change its policy to record advances as a current asset in order to avoid over accrual of expenditure. The change would be made during 2002-2003 as the Integrated System Project was implemented.

16. The Board looks forward to the implementation of UNHCR's revised policy designed to avoid over accrual of expenditure.

17. Implementing partner expenditure in the year 2001 totalled $310 million, comprising disbursements ($271.5 million), funds advanced but not yet cleared ($8.5 million) and unliquidated obligations ($30 million). This expenditure is underpinned by formal project agreements, signed by UNHCR and implementing partners, which define the aims and objectives of assistance projects. Such agreements provide for close monitoring of project activities, including both financial monitoring and performance monitoring. UNHCR's Manual provides staff with guidance on monitoring procedures to be applied to all projects and stipulates that monitoring activities should be carried out by agencies implementing sub-projects, the UNHCR field office and UNHCR Headquarters.

18. The Project Expenditure Control Account (X21) records balances of current and prior year project expenditure for which Headquarters has not received appropriately approved Sub-Project Monitoring Reports. Since these reports provide the main evidence that project expenditure conformed to agreements, outstanding X21 balances represent prior period expenditures that have not been subject to full control and verification by UNHCR.

19. Previous reports by the Board of Auditors raised concerns at the delays in clearing X21 balances, most recently relating to the financial statements in 1999. During 2000, as a result of a considerable, sustained effort, UNHCR reduced the total X21 balances by some $186.5 million. Nonetheless, at the end of June 2001, the X21 control account recorded uncleared advances to implementing partners totalling $55.5 million comprising:

- $21 million from 1994-1997;
- $8 million from 1998;
- $18 million from 1999; and
- $8.5 million from 2000.

20. As the status of these advances was uncertain, the Administration agreed to disclose the advances in Note 4(a) to the financial statements. The Board has accordingly limited the scope of its audit in respect of these outstanding advances, amounting to $8.5 million, which have been charged to expenditure but for which no Sub-project Monitoring Reports have been received.

21. The Board encourages UNHCR to continue its efforts to obtain missing Sub-Project Monitoring Reports, as identified in the X21 control account.

Review of Sub-project Monitoring Reports

22. On receipt of an SPMR, the Programme Unit in the relevant field office is responsible for reviewing the financial information and signing the form to verify that the expenditure is in accordance with the agreed project agreement. In accordance with the UNHCR Manual, Field Offices are required to:

- Ensure that the expenditures reported by implementing partners are consistent with the most recently approved budget;

- Ensure that the financial and performance reports from implementing partners reflect the reality of actual assistance provided to the beneficiaries; and,

- If necessary, request further explanations and/or details or revised reports from the implementing partners.

23. Before approval of these reports, Field Programme and Finance staff are required to verify the supporting documentation, implementing partner account ledger systems and bank statements. In addition, Programme staff should physically inspect and visit implementing partner offices in accordance with the UNHCR Finance Manual.

24. The Board reviewed the extent to which the monitoring procedures were applied and found that officers responsible for field monitoring generally provided no evidence of a regular or systematic check on implementing partner expenditure. In particular, there were significant weaknesses in the operation of the key field monitoring controls at three countries out of the five visited by the Board, where significant amounts of expenditure were incurred. In these three countries key management controls prescribed in the UNHCR Manual did not operate effectively over some $18 million expenditure, where:

- Programme and Finance Officers either gave no approval or gave approval 'subject to verification or further audit'; and

- Programme or Finance Officers informed the Board that they did not see approval of expenditure as their responsibility or did not have the time to carry out inspections.

25. In all five countries visited, there was no programme of monitoring visits to implementing partners and there were no formal monitoring visits undertaken covering expenditure in year 2000. As a result, these field offices had undertaken limited reviews of the internal controls operated by the implementing partners. The five countries visited by the Board spent approximately $148 million in 2000, of which implementing partners received project funding amounting to $107 million.

26. The Board also noted that at one Office internal controls operated by some implementing partners had been assessed as inadequate. The field office had contracted a consultant to review accounting systems operated by 29 implementing partners in the absence of available UNHCR staff to make the examination. The consultant identified significant accounting problems within more than half of the systems examined. For example, there were cases where, variously, no bank reconciliations were performed, no general ledger system was maintained, or no supporting documents were available.

27. As a result of these weaknesses the Board concluded that UNHCR had no assurance in respect of some $18 million, representing 17 per cent of the expenditure incurred by the implementing partners concerned, and limited assurance as to the remaining expenditure incurred by the implementing partners.

28. In view of the poor level of compliance that the Board had found in three field offices, where Finance Officers had not properly checked or validated SPMRs as required, the Board extended its tests of these procedures to cover other field offices. The Board selected, through the headquarters office, 74 high value subprojects with expenditure amounting to $42 million. The Board found that Programme Officers had fully checked out approved $28 million of the expenditure incurred by implementing partners but had only provided limited assurance regarding the remaining $14 million. In addition, one country denied UNHCR access to the accounting records of implementing partners to verify expenditure totalling $3 million in 2000, nor did the Government concerned provide UNHCR with independent audit certificates for these expenditures.

29. Overall, therefore, the Board's review of sub-project monitoring reports identified significant weaknesses in the verification and validation of some $35 million of expenditure incurred by implementing partners. In the absence of any alternative evidence to support this expenditure, the Board has had to limit the scope of its audit opinion in the amount of $35 million in this regard.

30. **The Board recommends that UNHCR strengthen its oversight of field offices to ensure that they undertake a thorough check of Sub-Project Monitoring Reports, including the verification of supporting documentation and bank statements.**

31. In summary, the position regarding Sub-Project Monitoring Reports (SPMR) arose despite concerted efforts by UNHCR to improve accountability of implementing partners. The Organization succeeded in reducing the backlog of SPMRs from $96 million as at 31 December 2000 to $8.5 million as at end of June 2001, and also made great strides in obtaining audit certificates, as indicated in the present report. There was, however, a very significant breakdown at field office level in the verification and validation of SPMRs and supervision of implementing partners. The Board of Auditors has, over the past years worked closely with UNHCR to help improve accountability and the Board now considers that the uncertainty regarding expenditure incurred by some implementing partners needs to be reflected in the Board's Audit Opinion. The Board has therefore qualified its audit opinion in respect of a total of $43.5 million of implementing partner expenditure, comprising $8.5 million for which there were no SPMRs and $35 million where expenditures reported in SPMRs had not been properly validated.

Independent audit certification

32. UNHCR requests independent audit certificates to confirm that implementing partners have applied UNHCR funds for the purposes intended. These are usually only available after the Board has provided an audit opinion on the UNHCR financial statements for the relevant year, and the audit certification of implementing partner expenditure is therefore mainly in respect of expenditure incurred in prior financial years. While this would not directly relate to the year 2000, the satisfactory certification of prior years' expenditure would provide assurance that implementing partners maintain adequate accounting systems and proper financial records.

33. In response to some of the Board's concerns in previous years, UNHCR introduced a new approach designed to improve audit coverage, which concentrated on obtaining audit certificates for subprojects with expenditure in excess of $100,000. In 1999, implementing partner expenditure amounted to approximately $420 million (of which only $12 million related to subprojects with expenditure below $100,000). At the time of the Board's review in May 2001, UNHCR had received audit certificates covering $330 million (79 per cent) in respect of 1999. Approximately $90 million (21 per cent) remaining uncertified, of which $10 million related to subprojects below $100,000.

34. The Board recognises that UNHCR has made very substantial progress in the extent to which it has secured audit certificates to support prior years' expenditures by implementing partners. The Board encourages UNHCR to sustain these efforts with the aim of obtaining audit certificates for all significant prior year projects.

Quality and results of audit

35. To assess the quality of the certificates provided to UNHCR and the results of the audit covering expenditure in the year 1999, the Board examined 91 certificates covering expenditures of $241 million. The Board found that: Auditors had to qualify their audit opinions in respect of expenditure of $18 million (7 per cent by value), on the grounds of insufficient evidence; Expenditure totalling $17 million (7 per cent) was inappropriately certified (e.g. by Government Accountants) rather than by independent auditors; and, 25 certificates covering $77 million (32 per cent) did not clearly state that funds provided by UNHCR were used in accordance with agreements.

36. Two of the qualified audit opinions related to projects in one country with expenditure amounting to $13.4 million in 1999, for which the independent auditors were unable to satisfy themselves as to the validity of the expenditure. They were therefore unable to express an opinion as to whether the project statement was fairly presented. The Office of Internal Oversight Services subsequently reviewed this same country office, covering expenditure amounting to $56 million in 1999, and concluded that it had made little attempt to conform to UNHCR guidelines, which require close supervision and oversight of implementing partners.

37. The Board therefore concluded that, with significant gaps remaining in the extent and quality of audit reports received in respect of 1999, limited assurance could be deduced as to the maintenance of adequate accounting systems and financial records by implementing partners in the year 2000.

38. **The Board recommends that UNHCR ensure that field offices review audit certificates received in respect of projects and follow up any significant issues arising, as required by the UNHCR Manual.**

Results of OIOS reviews of expenditure by implementing partners

39. The Board reviewed OIOS reports completed in 2000-2001 covering implementing partner expenditure amounting to $167 million, relating to activities carried out in 1998 and 1999. The reports indicated significant weakness in implementing partner systems. In particular, 42 per cent of implementing partners had inadequate accounting systems; 38 per cent could not supply OIOS with full documentation to support expenditures; and 38 per cent had not completed agreed expenditure reporting procedures, including subproject monitoring reports.

40. Although offices and implementing partners may have improved systems in 2001 as a result of OIOS recommendations, the Board concluded that there was no evidence that this position had improved in 2000.

41. The Board notes that, in response to the concerns raised by the OIOS reviews, UNHCR has subsequently strengthened controls from January 2001 over 42 major implementing partners. In particular, UNHCR requires that the partners describe their current accounting systems; retain records at field locations; report individual costs of project staff; and, seek pre-approval from UNHCR of procurement actions.

3. Financial position

42. UNHCR relies almost entirely on income from voluntary contributions totalling $709 million in 2000 and Regular Budget resources of $20 million. In its report on the 1999 financial statements, the Board drew attention to the decline in voluntary contributions received by UNHCR and expressed concern that the decrease of contributions from donor countries posed a serious liquidity risk for UNHCR which could impact on the delivery of assistance or limit the response to unforeseen emergencies. To assess the overall financial position of UNHCR the Board reviewed the financial position over the past five years and the level of reserves compared to the longer term liabilities disclosed in Note 12 of the financial statements.

Table 1: Financial position 1996-2000

Millions of US dollars

	1996	1997	1998	1999	2000
Income from all voluntary sources	993	820	784	927	709
Expenditure	1145	974	842	1023	784
Shortfall of income over expenditure (before adjustments)	(152)	(154)	(58)	(96)	(75)
Prior year adjustments	75	76	63	45	57
Reserve and fund balances at end of year	269	191	196	145	127

43. Table 1 provides a five-year analysis of key amounts from the financial statements. Over the period income has declined from $993 million to $709 million (28 per cent) despite an increase in 1999, when voluntary contributions increased in response to major refugee crises in Eastern Europe, Asia and Western Africa. Expenditure followed a similar profile reducing from $1.145 billion to $784 million (31 per cent). Although in-year shortfalls of income over expenditure were reduced by prior year adjustments, UNHCR had to use reserves to meet the residual shortfalls. This resulted in a fall in reserves of $142 million, from $269 million to $127 million (53 per cent) over the five year period. The Board estimated that, based on the decline since 1996, this rate of depletion would reduce reserve levels to $70 million within two years, sufficient to cover only the working capital fund of $50 million and earmarked reserves totalling $18 million for Junior Professional Offices, Medical Insurance and Trust Funds.

44. As regards UNHCR's liquidity position, the Board noted that UNHCR had improved its assets to liabilities ratio from 1.69:1 at the end of 1999 ($355.6 million : 210.4 million) to 2.43 : 1 at the end of 2000 ($216.1 million : $89.0 million). This ratio indicates that UNHCR had assets to cover almost two and a half times its liabilities at the end of 2000.

45. The Board concluded that, while UNHCR had sufficient current assets to cover its liabilities, it needed to bring expenditure levels closer into line with actual income received each year. The Board therefore endorses the initiatives taken in February 2001 by UNHCR to set expenditure limits at the level of expected income and to determine the optimal size of the organisation.

Termination liabilities

46. The Board noted that estimates of termination benefits for staff increased by a factor of five, from a figure of $22-27 million (Note 9c 1999 financial statements) to $110-130 million dollars (Note 12c, 2000). UNHCR informed the Board that in previous years, these liabilities had been based on broad estimates, but at the end of 2000 it had completed a more rigorous assessment of the benefits. The Board examined the revised estimates of the liability for termination benefits and considers them to be reasonable, although the Board notes that no actuarial valuation was made of the after

service medical benefits, contrary to the suggestion in the United Nations Accounting Standards. At the suggestion of the Board, UNHCR has provided an explanation for the significant increase in termination liability in the Notes to the financial statements for the year 2000, in compliance with United Nations Accounting Standards paragraph 57.

47. Until January 2000, many UNHCR staff members held fixed term contracts which, when completed, did not formally entitle them to termination indemnity payments. From January 2000, UNHCR introduced indefinite contracts for all staff, entitling them to termination benefits which vary in accordance with the years of completed service, with up to 12 months salary after 15 years service.

48. In May 2001, UNHCR drew up an Action Plan designed in part to bring administration costs in line with expected income for 2001. The plan envisaged a reduction of 598 staffing posts. The Board is concerned that the costs of reducing staffing levels may be increased as a result of the introduction of indefinite contracts, which involve binding termination benefits.

49. UNHCR has informed the Board that it assumes there will be no significant financial consequences related to the introduction of indefinite contracts in view of UNHCR's previous practice of paying minimum termination liabilities even to those whose contracts happened to expire at the time of separation.

50. As explained in Note 12 to the financial statements, UNHCR has no reserves to cover the staff termination liability of $110 million to $130 million or the estimated liability of $260 million for after-service health insurance. The amount of $127 million in reserves held by UNHCR at the end of 2000, would not meet these liabilities, since $75 million is earmarked for a number of potential liabilities: Medical Insurance ($9 million); Junior Professional Officers ($6 million) and operational reserves to fund activities pending donor cash receipt ($60 million).

51. The Board understands that UNHCR does not wish to hold significant funds for such longer-term liabilities, which are dependent on future events. The Board is concerned at the extent to which staff termination liabilities remain unfunded.

4. Write-off of losses of cash, receivables and property

52. In accordance with United Nations Financial Regulation 10.4, the Administration wrote off cash and account receivable amounting to $330,714 during the year. The write-off included receivables of $229,858, representing value added tax refunds due from 1988-1998, the recovery of which was considered unlikely. The Administration also wrote off long-standing travel advances amounting to $78,675 from 1991-1994.

53. **The Board recommends that UNHCR exert tighter control over the level of outstanding travel advances to reduce the extent to which such amounts may have to be written off in the future.**

54. The details of property and other categories of losses as reported to the Asset Management Board at headquarters and written off during 2000 were as follows:

Category	Value (US$)
Accident	57,741
Hijacking	27,451
Theft	157,510
Looting	70,375
Loss of property	8,848
Damaged/destroyed	3,812
Wear and tear	18,949
TOTAL	$ 344,686

55. UNHCR provided the Board with explanations for all the losses and writes-off and the Board is generally satisfied that appropriate action has been taken in the circumstances.

5. Ex-gratia payments

56. The Administration informed the Board that it made ex-gratia payments amounting to approximately $11,500 during 2000. The payments related to a traffic accident, personal injury and financial loss incurred by two staff while on official duty.

C. Management issues

1. Integrated information system project

Background

57. UNHCR relies on the International Computer Centre for mainframe support of its existing core computer system. The United Nations Office at Geneva (UNOG) provides UNHCR with staff payroll and travel services. When UNOG introduced the Integrated Management Information System (IMIS) in April 2000, UNOG maintained the services to UNHCR separately from IMIS, pending implementation of UNHCR's new Integrated System Project (ISP). UNHCR maintains a Financial Management Information System (FMIS) that includes a General Ledger and Project Register based on software originally introduced in the late 1980s and subsequently upgraded regularly. As part of its policy to move responsibility for operational and financial management closer to field activities, UNHCR has increasingly decentralised decision making away from the Headquarters in Geneva.

58. UNHCR was concerned that the existing computerised financial systems in the field and Headquarters were not fully integrated, could not be easily reconciled to central records and did not meet management information needs. To support delivery of field services and the monitoring and control of operations by field management and Headquarters, UNHCR designed the Integrated System Project (ISP) to replace FMIS. ISP was only one part of a larger management initiative, the Operational Management System, intended to provide a comprehensive, results-orientated and integrated management framework.

59. ISP combines three subprojects establishing an:

(a) Enterprise Resource Planning system to support the separate sections of Finance, Supply Chain, Human Resources, and Protection and Programme management;

(b) Electronic Document Management System; and

(c) Infrastructure Project to support the first two components.

Scope of review

60. In its report on the 1998 financial statements of UNHCR, the Board of Auditors drew attention to aspects of unrealistic planning and inadequate progress in implementing the Operational Management System Project (A/54/5/Add.5). The Advisory Committee on Administrative and Budgetary Questions also commented on the lack of full transparency in reporting on the implementation, costs, performance and delivery of UNHCR information technology projects and requested that UNHCR present comprehensive data on all such projects including relevant costs (A/55/487). Noting these concerns, the Board reviewed the implementation of ISP during 2000. As UNHCR has not yet installed an operational system, the Board confined its examination to the cost, performance and delivery of the planning and system procurement phases of the implementation; in particular:

(a) Selection of new system;

(b) Procurement, including cost of software and consultancy contracts; and,

(c) Project management including delivery against targets.

Selection of new system

61. UNHCR considered using modules from the Integrated Management Information System (IMIS) to provide software for its project. Although, UNHCR rejected the IMIS accounting and financial process module as it lacked a budget facility and would not support accounting or financial needs of the field, country and regional offices, it initially planned to implement IMIS modules for personnel administration, entitlements and payroll processing.

62. To confirm its detailed requirements, UNHCR commissioned consultants in 1997 to further review the IMIS personnel administration module. The consultants identified 60 high priority enhancements required by UNHCR and estimated it would take 6,500 hours of consulting time to code and test the revised system. In June 1998, based on the consultants' analysis, UNHCR concluded that IMIS was not suitable for its information needs and decided not to use any IMIS modules (A/A.C/96/900/Add.3).

ISP Cost / Benefit appraisal

63. UNHCR informed the Board that it had undertaken a Project Proposal of the Integrated System Project (ISP) which described the scope, benefits, cost and high level scheduling of activities. The Project Proposal listed 25 benefits that ISP should produce but these were not ranked, nor assigned a

monetary value. The more detailed 68 benefits listed in the Project Management Plan prepared in April 1999 included 33 unquantified potential benefits and productivity improvements for which no savings were quantified. Such quantification could have provided management with a firm baseline from which to monitor the realisation of benefits and to establish realistic project milestones.

64. **The Board recommends that UNHCR establish clearly defined, ranked benefits that are quantified as far as possible, in order to establish realistic milestones against which progress can be monitored.** UNHCR agreed to make realistic estimates of benefits for each further Phase of the Project, quantified and ranked wherever feasible.

Procurement of ISP

65. The estimated total cost of the ISP Project is $34 million, comprising an initial budget of $14 million approved in 1998 followed by a further $20 million between 2000 and 2002. The Board reviewed the cost and effectiveness of the procurement actions.

Software selection

66. In May 1999, UNHCR's Committee on Contracts recommended the approval of the purchase of software at an estimated cost of $5.3 million. The procurement process began in July 1997 when UNHCR requested nineteen potential suppliers to submit a bid for the provision of the software, of whom seven replied. UNHCR established a model for evaluating these software bids, which was designed to avoid placing undue emphasis on financial aspects at the expense of functionality. None of the selected products was able to meet the requirements of UNHCR completely, with the winning supplier scoring 71 out of 100, against 63 for the next highest. UNHCR completed the contract in August 1999 at a final cost of $4.9 million, with delivery of the product commencing in September 2000. Although the evaluation process raised concerns that the two products with the highest markings would require moderate to significant changes in either the software or the way UNHCR staff worked, UNHCR believed that the selected product would require less customisation.

67. UNHCR informed the Board that its most recent estimates of total lifecycle costs confirmed that the selected supplier had the lowest overall industry ratio of implementation: license cost. As a result, except in the area of human resources, UNHCR maintained that it required minimal effort on programming customisations with an estimated cost of less than 10 per cent of overall implementation cost. UNHCR, however, expected that an operational human resource system would take between two to three years to develop and meanwhile intended to extend current arrangements with United Nations Office in Geneva for payroll processing until 2004.

Modification of software

68. In September 2000, UNHCR's Information Technology Department invited the Committee on Contracts to recommend a contract to identify the modifications required to meet UNHCR's specific needs. The Committee recommended that the contract to undertake the necessary gap analysis be awarded to the ISP software supplier at a cost of $159,000, without competitive bidding. UNHCR informed the Board that it selected the software supplier because of its product knowledge and on the understanding that, to avoid a potential conflict

of interest, the company would not tender for the subsequent implementation contract. UNHCR also informed the Board that it had successfully reduced the initial price indication of $1.4 million to $159,000 as the software supplier offered preferential rates for the contract. While the Board commends UNHCR for its action in reducing the contract price, the Board is concerned at the high level of the initial bid received under this single tender action.

69. UNHCR found that the software required significant modification to cope with United Nations' staff entitlements and payroll processing. Since no other United Nations agency had purchased the Human Resource Management or Payroll modules concerned, UNHCR found it difficult to assess the extent to which the modules required customisation or configuration. In the absence of in-house skills to perform further gap analysis the Committee on Contracts agreed to recommend waiver of competitive bidding for a consultant at a cost of $213,660 to detail further modifications to the software. Subsequently, the Committee on Contracts also recommended approval of the waiver of competitive bidding for User Training modules at a cost of $339,000 not foreseen in the original software evaluation.

70. The Board considers that the original evaluation of the software would have benefited from a gap analysis at the outset to identify the level and cost of customisation prior to, rather than after, the decision to purchase the system. Although the software supplier offered to develop the missing functionality and share the costs with other organisations that would be interested in the component, there was no evidence that subsequent costs were reduced. Furthermore, the Board is concerned that UNHCR waived competition in the award of contracts with a combined value of $711,660. **The Board recommends that UNHCR make future software provision only after a fully costed assessment of any modifications needed.**

71. UNHCR informed the Board that had it undertaken a customisation and evaluation of the top two contenders, this would have caused additional delays in a project that had already suffered far too many delays. UNHCR considered that its extensive assessment of the selected software had established that the product had a clear lead over its rivals, and an evaluation would not have affected the choice of software.

Unused modules

72. Following negotiations by the Supply and Transport Section, the software provider agreed to a five per cent discount on the initial cost of 17 software modules and a 17 per cent discount on the cost of six further modules. Although the cost of the licence increased from $2 million to $2.3 million, the discounts represented a saving amounting to $64,284 on the full purchase price of 23 modules. However, the Board found that one year after it had purchased the software, UNHCR had not used three modules costing $195,000 and found no requirement for six modules bought at a cost of $549,000. UNHCR informed the software provider in June 2000 that it did not need six of the modules purchased. Since the software provider charged maintenance costs of 14 per cent of the licence fee for the second year, UNHCR also incurred maintenance costs on unused modules amounting to $37,651. Accordingly, UNHCR had incurred expenditures totalling some $781,651 on modules which it did not use or need.

73. UNHCR informed the Board that it was unable to get refunds for unused modules, but has negotiated a switch from the public sector modules originally purchased to those of the commercial sector without extra cost, an agreement to trade in older modules for new ones, and the option to re-activate any dropped module whenever necessary in the future. In addition, the Supply and Transport Section negotiated maintenance costs of modules based on actual costs rather than the original contract rates tendered. As a result, UNHCR estimated that, over the eight year lifecycle of the licence, total savings of $505,000 were achievable to offset the cost of the unused modules.

74. The Board recognizes that UNHCR's negotiations with the contractor achieved overall savings compared with the original bid, and that attempts to secure a recovery of the costs of the unnecessary modules resulted in some further savings and benefits. The Board is concerned, however, that UNHCR's original needs assessment may have overstated requirements, or the capacity to implement them.

Selection of system implementer

75. In August 2000, UNHCR invited eight suppliers to bid for a contract to modify, configure and implement the software. UNHCR had noted that, on conclusion of the preliminary technical and price evaluations of the three bids received, each bidder's understanding of the requirements varied considerably. To overcome the problem, UNHCR held a question and answer session with the three bidding suppliers. UNHCR again developed a weighted assessment totalling 100; 80 for technical and 20 cost, with a score of 50 representing a satisfactory response. The winning bidder scored 54.71 against its nearest rival which scored 51.9. Although costing $17.9 million, some $8.7 million more than the rival bid of $9.2 million, UNHCR informed the Board that it had selected the contractor after taking account of his knowledge of UNHCR requirements, experience of its staff and the close relationship with the development of IMIS Human Resource systems at the United Nations Secretariat.

76. The Board is concerned at the weighting that UNHCR had assigned to the technical assessment, at the expense of cost considerations, which resulted in a bid of $8.7 million being rejected in favour of a bid of $17.9 million, particularly as there were less than three percentage points of difference between the two overall assessments.

77. Before appointing the contractor, however, UNHCR requested it to complete, a preliminary "Phase Zero" project at a cost of $639,000 to identify scope for cost reductions in the implementation contract. The contractor agreed that if it continued with the main software implementation, the $639,000 fee would be waived. Phase Zero included a review of the selected software to:

(a) Determine further customisation required to the software delivered in June 2000;

(b) Prepare a technical implementation strategy; and

(c) Use a high-level cost benefit analysis of the customisation work to establish modifications that are essential to UNHCR's cperations.

78. The contractor started Phase Zero in September 2000, and identified a number of issues particularly concerning project management. It advised UNHCR to undertake a fundamental review of the project objectives and structure before proceeding any further. Such a review would have been at an increased cost to UNHCR if undertaken by the contractor. While UNHCR was considering this proposal, it suspended Phase Zero until it had reached agreement with the contractor to complete the original Phase Zero contract between February and March 2001. UNHCR and the contractor subsequently agreed that the latter should undertake the additional work and to share the extra costs, which amounted to $480,000 in total. By May 2001 Phase 0 had been completed and Phase 1 was about to start.

79. The Board is concerned at the slow progress in implementing ISP and in particular that, after three years, and after having incurred expenditure of $8.9 million against a total budget of $34 million, UNHCR has yet to implement any part of the ISP system.

Project management of ISP

80. Until April 2000, the Division of Operations managed the Operational Management System, while the Division of Resource Management managed ISP. Two separate structures, an Information Technology Steering Committee and the Operational Management System Project Board, oversaw development of ISP. In April 2000, in order to develop a co-ordinated management structure, the High Commissioner established a five-person Management Board with joint responsibility for Operational Management System and ISP development. In October 2000, UNHCR contracted consultants to establish a comprehensive planning framework for effective ISP communication, management, delivery and monitoring. The initial findings of the consultants prompted concerns over project management including a lack of global vision and goals for the project; unclear strategic decisions on issues that directly affect the design and implementation of the system, and the integration between the separate project teams.

81. The Board considers that the effectiveness of the project management suffered from lack of a consistent direction of operations. Project staff reported through different divisions or departments within UNHCR rather than directly through a Project Manager, in part because some staff split their responsibilities between the project and other operational demands. In the Project Proposal UNHCR had emphasised the need for a project manager experienced in projects of similar size and complexity. However, at the time of the Board's interim audit in December 2000, the project had a temporary project manager, who was, subsequently replaced by a further temporary incumbent until March 2001, to oversee the completion of the consultancy contract. **The Board recommends that UNHCR establish and maintain a single line of project management through which staff report on all aspects of ISP project development.**

82. UNHCR agreed with the Board that ISP suffered from a lack of decisive management and an absence of clear accountability or responsibility structures. UNHCR therefore disbanded the Operational Management System Project Board and intended to appoint a single Project Manager to whom all Project staff would report, and who in turn would report to a single Project Sponsor. UNHCR expected this management structure to guarantee quick decision-making and clear accountability.

83. The Board also encouraged UNHCR to consider establishing project status criteria to facilitate monitoring of expenditure, delivery against milestones, risk exposure and staff input. UNHCR informed the Board that such performance indicators formed part of UNHCR's project management overview of ISP. The Board welcomed UNHCR's assurance that, as part of risk mitigation, fully elaborated indicators for Phase 1 would be in place before the start of the implementation phase.

Project costs

84. At the time of the Board's audit in May 2001, recorded expenditure on ISP amounted to $8.9 million ($5 million in 1999, $3.4 million in 2000 and $0.5 million in 2001). The Board reviewed the cost and effectiveness of the procurement actions.

85. The Board noted that project costs were understated as some staff costs were not charged to the ISP project code. Of the nineteen full-time staff working on ISP in November 2000, for example, eight were charged to non-ISP project codes within different divisions or sections. The Board estimated that UNHCR staffing costs for ISP in year 2000 were understated by up to $1.3 million.

86. However, even after adjusting for this unrecorded expenditure, the total expenditure was lower than the budgeted amount of $17 million, mainly because the final software implementation contract, valued at a maximum of $18 million, was delayed.

87. **The Board recommends that ISP staff costs be recorded to an ISP project account code to enable a comprehensive assessment of project costs.** UNHCR accepted that all project-related cost should be comprehensively reported, in particular, it plans to establish systems to charge all staff to the project before the start of the implementation phase (Phase 1).

Project delivery

88. At the project proposal stage in 1998, UNHCR had provided projections of target dates, namely to select the software and implementing contractor by June 1999. As UNHCR's experience of the project increased, it continually revised both delivery dates and targets. For example, in draft 3 of the Project Management Plan dated April 1999, the main finance and budget modules were to be installed into Headquarters before the end of December 2000. In February 2000, UNHCR advanced the implementation target to October 2000 but revised the objective to 'configure and develop software for finance and budget'. By the end of March 2001, UNHCR had not decided who would be contracted to complete the software implementation, and none of the purchased modules had been implemented.

89. The Infrastructure subproject targets established in February 2000 were to extend Intranet user access to 60 additional field offices by October 2000 and upgrade electronic mail (e-mail) at Headquarters by the end of December 2000. By this date, 40 offices had been connected to the Intranet and the e-mail was expected several months later.

90. **The Board recommended, and UNHCR agreed, that project management should set achievable delivery targets based on a realistic appraisal of the complexity of the project and the availability of resources.**

Modular and incremental design

91. The Board considers that UNHCR would benefit from an incremental and modular approach within its implementation methodology. An incremental approach to development begins with a component of the overall project that is deliberately limited in functionality, then builds on that component to increase its value to the organisation.

92. UNHCR informed the Board that it had become acutely aware of the overly ambitious nature of the original systems renewal plan. The organisation had recognised the urgent need to modernise its ageing information systems and therefore developed a comprehensive approach to the problem that became extremely large and difficult to manage. As a result progress was uneven, with some aspects held back while others became immersed in consultations without defining requirements. Following the Board's review, UNHCR decided to scale down the project to establish more realistic and achievable goals. The Board welcomes UNHCR's plan to introduce a phased approach to project implementation of core administrative areas; and to the roll-out to field offices, taking into account lessons learned. The Board also looks forward to further progress in implementing ISP, following the improvements in project management and design that were in place at the time of the Board's audit.

2. Prioritisation of core mandate activity

93. UNHCR's core mandate is to provide international protection to refugees and seek durable solutions to their plight. As part of its review of five field office operations, the Board examined the extent to which the offices concentrated on core protection activities and the numbers of the refugees that the activities supported.

Development activity

94. The Board found that in some of the countries it had visited, UNHCR engaged in infrastructure development for the whole community and that this formed a significant sector activity not directly related to UNHCR's core protection mandate. UNHCR provided funding for broader development and infrastructure assistance, for example road building and bridge construction activities which the Board considers other Agencies are better equipped to provide. In one country, refugees returning under the assistance of UNHCR comprised only 31 percent of beneficiaries assisted by projects reviewed by the Board. In another, UNHCR provided long-term shelters for vulnerable beneficiaries from the entire internally displaced population. The Board is concerned that UNHCR did not have the mandate or resources to maintain assistance to whole populations, mainly comprising non-refugees. Furthermore, in three field offices where UNHCR had operated for over five years, the Board found no clear milestones against which UNHCR could measure progress and assess when its mission was complete.

95. UNHCR informed the Board that its involvement in development activities resulted from its ability to respond rapidly to emergency situations and, as a result, some Governments and the local population came to depend on UNHCR for support. For these reasons UNHCR found disengagement to be difficult.

96. The Board welcomed the review initiated by UNHCR in 2001 to ensure that priority is given to UNHCR's core mandate objective within the limits of expected donor contributions. This review included an assessment of the

operations in field offices located in 120 countries to identify where savings were possible through concentration on the core activity. Where offices were generally involved in non-core activity, of interest to specific donors, they would be implemented through additional funding not diverted from core activities.

97. **The Board recommends that, as part of its prioritisation of activities, UNHCR review the appropriateness of engaging in projects which are not of direct assistance to refugees/returnees, and that UNHCR should routinely set clear milestones against which to measure progress and assess when its mission was complete.**

Numbers of refugees

98. The Board considers that UNHCR needs to know the number of beneficiaries, with a relative degree of accuracy, who are expected to benefit from its projects in order to realistically plan field staffing levels and Headquarters' support. In three field offices, the Board found, however, that UNHCR did not have access to an up-to-date record of the number of refugees or internally displaced persons. For example, in one location the Board noted that an international implementing partner estimated refugee numbers at 10,847 rather than the 15,267 estimated by UNHCR.

99. The Administration informed the Board that in February 2001, UNHCR had completed a study of a PROFILE project to address the collection of basic and reliable population information at the field level and enhance recording at the regional level. The study indicated that the size of the beneficiary population is the most important determinant for provision of protection and assistance to the population in need. Project profile will enable UNHCR to improve its operations management by providing more accurate and better information on the beneficiary populations. If approved by the High Commissioner, the project is expected to commence in July 2001.

100. **The Board recommends that UNHCR establish a suitable system to ensure that accurate information is maintained on the size and characteristics of the refugee population.**

3. Performance reporting

101. UNHCR introduced a standard format for the setting of measurable objectives in project agreements with implementing partners in January 2000. Sub-project agreements set out the key features of UNHCR projects and are signed by both UNHCR and the implementing partner. While the Board considered that in general, the agreements provided a good overview of proposed activities, the Board found that target beneficiaries and the precise objectives and outputs of the project were not always expressed in clear, quantified terms. As a consequence, it was not always easy to assess the extent to which the projects had achieved their objectives. As a minimum, the Board considers that project agreements should state clearly:

- The number of beneficiaries who are expected to benefit from the project;

- The criteria for selecting or identifying the beneficiaries;

- The quantity and frequency of assistance to be provided to each beneficiary; and

- The location of the beneficiaries.

102. In the projects reviewed by the Board such quantifiable targets were not routinely set. For example, one project objective was to facilitate secondary distribution services for all World Food Programme and UNHCR commodities as well as approved Implementing and Operational Partner food and non-food items earmarked for refugees and/or internally displaced persons. However, the project document did not specify what commodities were expected to be distributed or who qualified as approved implementing partners. Furthermore, the proposed distribution for the year was reduced by over 50 per cent but no change was made to the description of the beneficiary population in the project document.

103. The Board noted that sub-project agreements were not supported by workplans setting out the timetable to complete the key activities and tasks within the project. As a consequence the Board was not in a position to assess whether projects were ahead or behind schedule. **The Board recommends that sub-project agreements should include clearly stated and quantified objectives and outputs updated as necessary, and that workplans incorporating key milestones and target dates be produced to enable UNHCR to more closely monitor project delivery.**

104. In the Global Appeal 2000 for the five countries reviewed by the Board, UNHCR formulated narratival objectives that were not always quantified. Objectives were generally activities and not end-results to be attained or targets to be achieved (e.g. "provide protection" or "facilitate voluntary repatriation"). For three out of five countries examined there were no measurable targets and for the remaining two countries there were only a few measurable targets. Similarly, in the Mid-Year Progress Report 2000, three out of the five countries reviewed by the Board did not report on the achievement of objectives and the remaining two countries reported progress against only one objective.

105. **The Board therefore recommends that UNHCR develop an integrated framework of performance reporting which would clearly show achievement against objectives.** The Administration informed the Board that it planned to introduce an integrated performance reporting framework to clearly show achievement against objectives once management reporting was improved through the Integrated System Project.

4. Human Resource Management

106. During the audit of one field office, the Board reviewed a project which provided technical and administrative support for UNHCR's protection and assistance activities in the country. The project had 86 staff who were employed by the NGO and did not therefore have contracts of employment with UNHCR. In the year 2000, the project incurred expenditure of $734,000 on the provision of services to the UNHCR office. The project agreement specified that UNHCR make direct payments to these project staff who are hired only after close consultation with, and the formal approval of, UNHCR. Although the staff work alongside UNHCR employees in the UNHCR field office and carry out similar functions, they are paid according to a lower payscale and do not receive the same benefits. The arrangement was longstanding and many of the project staff had been employed for a number of years in this way.

107. he Board noted that the project staff concerned were not included in the approved staffing table for UNHCR posts even though they are effectively used to maintain core UNHCR activities. At the time of the Board's audit in April 2001 there was considerable uncertainty over the contractual status of the project staff. In particular, it was not clear whether UNHCR was liable to pay termination benefits if it became necessary to separate some of these project staff. **The Board recommends that UNHCR establish the numbers and status of staff belonging to projects which are fully funded by UNHCR and are designed to supplement local staff numbers, and assess any consequent liabilities which may accrue to the organization.**

5. Cases of fraud and presumptive fraud

108. UNHCR informed the Board that there were no cases of fraud or presumptive fraud during the year.

109. At the time of the Board's audit in May 2001, UNHCR was investigating allegations of bribery in one country. The investigation concerned alleged payments to individuals in exchange for visas allowing residency in Member States. The Board will review the findings of the investigation once completed.

D. Acknowledgement

110. The Board wishes to express its appreciation for the co-operation and assistance extended to the auditors by the High Commissioner and his staff.

(Signed) Guillermo N. CARAGUE
Chairman, Philippine Commission on Audit

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Shauket A. Fakie
Auditor-General of the Republic of South Africa

28 June 2001

ANNEX

Follow-up on actions taken to implement the recommendations of the Board of Auditors in its report for the year ended 31 December 1999[a]

I. RECOMMENDATION 13(a)

1. UNHCR should ensure complete and accurate disclosure of non-expendable property; urge all field offices to submit updated inventory databases; prepare the comprehensive database for non-expendable property based on the same cut-off date; and conduct on a regular basis physical stock checks.

Measures taken by the Administration

2. The new Asset Management System (AssetTrack) was launched in May 2000 and has contributed to a marked improvement in the number of Field Offices that have reported on assets at the end of the year. The software is now functioning in 135 locations and field offices are performing the physical inspection of assets under their custody as a priority. Out of the 135 locations 119 submitted their year-end AssetTrack databases for consolidation. UNHCR informed the Board that due to technical or other reasons 16 locations were unable to submit their databases at the end of the year. UNHCR had sent several reminders to Field Offices emphasising the importance of proper Asset Management.

3. During the rollout, UNHCR reminded all responsible parties of the requirement to conduct an annual physical check of non-expendable property. However in an organisation as large as UNHCR, operating in over 180 countries worldwide, carrying out a comprehensive inventory with a single cut-off date represents a huge challenge. The Office will continue its efforts to urge Field Offices to submit updated inventory databases to ensure a complete disclosure of the non-expendable property in the accounts for the year 2001 and remind them of the requirement to conduct an annual physical check of the property.

Comments of the Board

4. The Board welcomed the installation of the new software, but identified continuing problems with the management of non-expendable property as indicated in the present report.

II. RECOMMENDATION 13(b)

5. UNHCR should reconcile the unliquidated obligations reported at year-end by field offices to ensure that there is no overstatement of expenditures in the accounts.

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[a] Official Records of the General Assembly, Fifty-fifth Session, Supplement No. 5E (A/54/5/Add.5), chap. I, para. 12.

Measures taken by the Administration

6. UNHCR revised guidelines for the account closure for the year 2000 to clearly define the responsibilities of programme managers both in the field and at headquarters. In an effort to reconcile unliquidated obligations during the year, UNHCR issued instructions linking the requests for increases in obligations with the reconciliation of prior year's unliquidated obligations.

7. In UNHCR's opinion, the amount reported in the Financial Statements as unliquidated obligations is a fair reflection of the requirements as estimated as at the end of the year. However there are a number of compelling factors that UNHCR believed result in a small percentage being cancelled during the following year. This cancellation is reported in the financial statements and UNHCR considered that the fact that unliquidated obligations may be cancelled should not be interpreted as an "overstatement of expenditures" in the accounts for the previous year.

Comments of the Board

8. The Board comments on this issue in the present report.

III. RECOMMENDATION 13(c)

9. UNHCR should urge implementing partners with long outstanding advances to submit their final sub-project monitoring reports and facilitate the clearance of projects.

Measures taken by the Administration

10. UNHCR informed the Board that during 2000, UNHCR had made good progress in its efforts to obtain final sub-project monitoring reports from all of its partners. In the course of 2000, the unreported balance of instalments paid to implementing partners for projects related to the years 1994 through 1998 was reduced from $ 56.1 to $ 29.9 million. At the end of the financial year 2000, the balance of advances to implementing partners under 2000 projects stood at US $ 96.2 million and the balance for which reports were outstanding was further reduced to US $ 46.6 by end May 2001.

Comments of the Board

11. The Board reports on its examination of outstanding project balances in the present report.

IV. RECOMMENDATION 13(d)

12. UNHCR should continue exerting efforts to encourage implementing partners to submit the required audit certificates.

Measures taken by the Administration

13. UNHCR introduced a new policy and conceptual approach in 2000 (A/AC.96/933/Add.1) to improve compliance rates for the submission of audit certificates by implementing partners. For projects implemented during 1999 UNHCR reached an overall compliance rate of 79 per cent as at end May 2001 as

compared to 76 per cent for 1998 projects and 78 per cent for 1997 projects. The compliance rate for 1999 projects implemented by International NGOs stood at 92.4 per cent, government partners 68.6 per cent and local NGOs 60.3 per cent.

14. UNHCR believes this policy change, the revised guidelines contained in the UNHCR Manual and the experience gained over the last three years will considerably improve the compliance in the submission of audit certificates by implementing partners for the year 2000. In 2001 UNHCR plans to introduce some review mechanisms of the quality of the reports received and consider disqualifying those partners with a qualified audit opinions. However, UNHCR informed the Board that in many instances UNHCR does not have a choice as the number of partners operating in certain areas is very limited and UNHCR faces political constraints.

Comments of the Board

15. The Board acknowledges the increased coverage of audit certification resulting from UNHCR's revised guidelines. It comments further on the coverage and quality of audit certification in respect of 1999 expenditure in the present report and will continue to review audit certification coverage and quality in future audits.

V. RECOMMENDATION 13(e)

16. UNHCR should immediately address rolling out of the new asset management system for effective management and control of assets.

Measures taken by the Administration

17. The new asset management system "AssetTrack" was effectively rolled out in May 2000.

Comments of the Board

18. The Board welcomes the installation of the new software.

VI. RECOMMENDATION 13(f)

19. UNHCR should require all field offices to provide adequate segregation of incompatible functions such as accounting, procurement and cashiering to ensure strong check and balance of responsibility and to strictly adhere to the United Nations Financial Regulations and Rules.

Measures Taken by the Administration

20. UNHCR agreed with the Board that this is one of the most important internal control mechanisms and, whenever possible, this principle is enforced. Recently introduced new policy guidelines emphasise the importance of segregation of duties within the delegation of authority. However, in many of its offices UNHCR could not fully implement segregation of functions due to the size of these offices and the operational realities.

Comments of the Board

21. The Board will continue to assess the adequacy of segregation controls in future reviews of the delegation of financial monitoring controls.

VII. RECOMMENDATION 13(g)

22. UNHCR should streamline project implementation by ensuring that release of instalments to implementing partners are on time (not delayed nor in advance), that sub-project monitoring reports are regularly submitted by the field offices to allow headquarters to assess the progress of the ongoing projects. The Board also suggests that field offices closely monitor the performance of implementing partners to provide them with adequate information to determine whether these implementing partners should be considered in future UNHCR projects.

Measures taken by the Administration

23. UNHCR reassured the Board that systems are in place to control the timely release of instalments to implementing partners and that monitoring the performance of implementing partners is an integral part of UNHCR's Programme Management System. The UNHCR Representative or Head of Country Office had responsibility to monitor implementation of projects entrusted to implementing partners and ensure that project performance is in accordance with the sub-agreements signed with the partners. Since the issuance of an updated Section 6.5 of Chapter 4 of the UNHCR Manual in January 1999, which provided greater clarity on "Sub-Project Monitoring Reports", an updated Section 4.4 was issued in November 2000 on "Sub-Projects and Sub-Agreements". The latter Section reminds field offices with regard to the payment of instalments and states: "Offices in the field should ensure that the amounts and timing of instalment payments bear a direct relationship to actual disbursement requirements, and that substantial unused balances are not left in implementing partner accounts". UNHCR has also reminded field offices that compliance with reporting requirements must be documented and that the data in the Sub-Project Monitoring Report entered into the Implementing Partner Recording module of the Field Office Accounting System.

24. With a view to further strengthen the compliance with the existing rules, the Division of Resource Management will remind all Representatives of their responsibility vis-à-vis the quality of their programmes; reiterate instructions and rules on the subject, and remind Representatives of their accountability under the various instruments for monitoring and control.

Comments of the Board

25. The Board examined the monitoring and control of implementing partner expenditure during 2000 and reports its findings in the present report. The Board will continue to examine progress made in the control of implementing partner expenditure in future audits.

VIII. RECOMMENDATION paragraph 27

26. UNHCR should establish a provision for uncollected Voluntary Contributions Receivable to show the net realisable value of the Voluntary Contributions Receivable.

Measures taken by the Administration

27. UNHCR informed the Board that it does not feel that the current situation warrants a provision for uncollectible contributions since UNHCR's experience with donors has not given rise to substantial concern. It believed cancellations of contributions are a low level of the total contributions (less than 1 per cent), with the exception of 1995 when cancellations amounted to $29.3 million. UNHCR considered the 1995 figures to be untypical and not representative. It emphasised that many of the cancellations related to projects not implemented for which there was no expenditure, and therefore there was no financial risk for UNHCR. UNHCR is committed to monitor future developments and will consider the setting up of a provision for uncollected voluntary contributions receivable when required by financial prudence. This is in keeping with the spirit of the UN Accounting Standard No 33, which required a provision when collection was deemed doubtful.

Comments of the Board

28. The Board will continue to monitor the necessity for a provision for uncollected Voluntary Contributions.

IX. RECOMMENDATION paragraph 62

29. UNHCR should urge the field offices to comply with the existing policy on assets disposal to strengthen controls over them.

Measures taken by the Administration

30. Field offices have been regularly reminded of existing policy on asset disposal.

Comments of the Board

31. The Board notes the action taken and will monitor developments.

X. RECOMMENDATION paragraph 64

32. UNHCR should urge the field offices to closely monitor their expenditures to avoid exceeding the limits of allotments.

Measures taken by the Administration

33. While "budget overruns" occurred, these were against specific budget headings using the savings under other headings, as allowed under the current UNHCR procedures in line with UNHCR's Financial Management decentralisation policy. Within the total amount allocated under the Administrative Budget, field offices are authorised to effect transfers from one budget heading to another. The "limits of the allocations" were not exceeded, except in one case where the situation was beyond UNHCR's control.

Comments of the Board

34. The Board notes UNHCR's explanation.

XI. RECOMMENDATION paragraph 70

35. UNHCR should monitor Personnel Actions to reduce the risk of overpayments to personnel.

Measures taken by the Administration

36. UNHCR indicated that, as Payroll is outsourced to United Nations Office at Geneva, UNHCR does not have the capacity to check the implementation of entitlements as registered in our Personnel Actions. Regrettably, UNHCR had no solution until the implementation of a new Integrated System including a Payroll function, which is under development. Pending the implementation of the new Integrated System, including a Payroll function, the Office of Internal Oversight Services (OIOS) conducted an audit of UNHCR payroll. This review provided an opportunity to determine the risk of over payments to staff and to assess the procedures in place for their recovery. UNHCR is of the opinion that the risk is low.

Comments of the Board

37. The Board reports the outcome of the OIOS review of payroll in the present report. The Board considers that there is a risk of material misstatement arising and will continue to monitor developments in this important area.

XII. RECOMMENDATION paragraph 72

38. UNHCR field offices should be urged to submit timely reports on unliquidated obligations which should be used by headquarters to make proper adjustments to the records.

Measures taken by the Administration

39. This recommendation has been implemented and instructions were issued to field offices in the first quarter of 2001 to submit reports and confirm the validity of unliquidated obligations.

Comments of the Board

40. The Board notes the action taken and will continue to monitor developments.

XIII. RECOMMENDATION paragraph 74

41. UNHCR field offices should strengthen their programme planning through the preparation of appropriate planning documents which could include performance indicators and milestones.

Measures taken by the Administration

42. UNHCR had strengthened programme planning through the issuance of clearer and more detailed instructions issued in December 2000. These provided field offices with comprehensive guidance on the preparation of appropriate planning documentation, emphasising the importance of setting goals, objectives and outputs. UNHCR also conducted a series of training workshops, for field staff, on the preparation of Project Descriptions, Sub-

Project Descriptions and Strategic Planning, leading to the preparation of the Country Operations Plan.

Comments of the Board

43. The Board's comments on the progress made in the setting of performance indicators are included in the present report. The Board will assess the impact of the strengthened programme planning guidelines and the training of field staff in future audits.

XIV. RECOMMENDATION paragraph 79

44. UNHCR should record all UNFIP contributions as Trust Funds to ensure proper monitoring and accounting of the contributions.

Measures taken by the Administration

45. This recommendation has been implemented and the UNFIP funding in the year 2000 has been recorded in the UNHCR accounts as Trust Funds.

Comments of the Board

46. The Board notes the action taken.

CHAPTER II

AUDIT OPINION

We have audited the accompanying financial statements, comprising statements I to III, schedules 1 to 5, the appendix and the supporting notes to the accounts of the voluntary funds administered by the United Nations High Commissioner for Refugees for the period from 1 January to 31 December 2000. These financial statements are the responsibility of the High Commissioner. Our responsibility is to express an opinion on these financial statements based on our audit.

An audit includes examining, on a test basis and as considered by the Board of Auditors to be necessary in the circumstances, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the High Commissioner, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the audit opinion.

We conducted our audit in accordance with the common auditing standards of the Panel of External Auditors of the United Nations, the specialized agencies and the International Atomic Energy Agency. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. However, the evidence available to us in respect of $43.5 million of expenditures by implementing partners was inadequate for the reasons stated in the Board's long form report (paras. 14-41). In the absence of alternative audit procedures that we could adopt to confirm that implementing partner expenditure was properly validated and recorded, there was uncertainty about expenditures amounting to $43.5 million.

Except for the effect of any possible adjustments that might have been found to be necessary had we been able to obtain sufficient evidence concerning implementing partner expenditure, in our opinion:

- the financial statements present fairly the financial position as at 31 December 2000 and the results of operations and cash flows for the period then ended in accordance with UNHCR stated accounting policies set out in note 2 to the financial statements which were applied on a basis consistent with that of the preceding financial period; and

- the transactions that we have tested as part of our audit have in all significant respects been in accordance with the Financial Regulations and legislative authority.

In accordance with article XII of the Financial Regulations, we have also issued a long-form report on our audit of the financial statements of the voluntary funds administered by the United Nations High Commissioner for Refugees.

(Signed) Guillermo N. CARAGUE
Chairman, Philippine Commission
on Audit

(Signed) Sir John BOURN
Comptroller and Auditor General
of the United Kingdom of Great Britain
and Northern Ireland

(Signed) Shauket A. FAKIE
Auditor-General of the Republic
of South Africa

28 June 2001

STATEMENT OF THE HIGH COMMISSIONER'S RESPONSIBILITIES

AND

APPROVAL OF THE FINANCIAL STATEMENTS

The United Nations High Commissioner for Refugees is ultimately responsible for the content and integrity of the financial statements contained in the Accounts of the Voluntary Funds Administered by the United Nations High Commissioner for Refugees which are submitted to the Executive Committee of the High Commissioner's Programme and to the General Assembly of the United Nations.

To fulfil its responsibility, UNHCR operates within prescribed accounting policies and standards and maintains systems of internal accounting controls and procedures to ensure the reliability of financial information and the safeguarding of assets. The internal control systems and financial records are subject to reviews by the Office of Internal Oversight Services and the United Nations Board of Auditors, during their respective audits.

In this context, the following appended financial statements, comprising Statements I to III, Schedules 1 to 5, Appendix I and Supporting Notes, were prepared in accordance with UNHCR Financial Rules (A/AC.96/503/Rev.7) and the United Nations Common Accounting Standards. In Management's opinion, the accompanying financial statements present fairly the financial position of the Office as of 31 December 2000, and the results of its operations and its cash flows of individual Programmes, Funds and Accounts for the year then ended.

The Accounts are hereby

Approved :
(Signed) Ruud Lubbers
United Nations High Commissioner for Refugees

Certified :
(Signed) Jean-Marie Fakhouri
Controller & Director

Geneva, Switzerland
01 June 2001

CHAPTER IV

FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000
NOTES TO THE FINANCIAL STATEMENTS

(See document A/AC.96/948, Voluntary Funds Administered by the United Nations High Commissioner for Refugees - Accounts for the year 2000).

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EXECUTIVE COMMITTEE OF THE
HIGH COMMISSIONER'S PROGRAMME

Fifty-second session

REPORT OF THE BOARD OF AUDITORS TO THE GENERAL ASSEMBLY ON THE ACCOUNTS OF THE VOLUNTARY FUNDS ADMINISTERED BY THE UNITED NATIONS HIGH COMMISSIONER FOR REFUGEES FOR THE PERIOD ENDED 31 DECEMBER 2000

Addendum 1 - Measures taken or proposed in response to the recommendations in the Report of the Board of Auditors to the General Assembly on the Accounts of the Voluntary Funds administered by the United Nations High Commissioner for Refugees for the year ended 31 December 2000

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I. INTRODUCTION

1. In accordance with paragraph 10 of General Assembly resolution 47/211 of 23 December 1992, the following is a report on measures taken or to be taken by UNHCR in response to the main recommendations of the Board of Auditors, as set out in paragraph 11 of their Report (A/AC.96/949). Unless otherwise indicated, all references appearing below relate to the aforementioned Report. This document also deals with previous recommendations not fully implemented, as detailed in paragraph 8 of the Report as well as the other recommendations mentioned in its paragraph 12.

Financial management

II. RECOMMENDATION 11 (a)

2. Strengthen its oversight of field offices to ensure that they undertake a thorough verification of Sub-project Monitoring Reports, including the verification of supporting documentation and bank statements (para. 30);

Measures Taken by the Administration

An updated Section 6.5 of Chapter 4 of the UNHCR Manual dealing with the Sub-Project Monitoring Report (SPMR) was issued in January 1999. This provided improved guidance for Field Offices on how to process SPMRs within the Field Office, and identified the different responsibilities of Programme and of Finance staff. The updated Section 6.5 took into account the various complexities of UNHCR's operations in the field and provided four possible scenarios, together with flowcharts in graph format. Preceding the description of the four scenarios is the following paragraph:

> "There are four possible scenarios, and corresponding options, for completing the Financial Monitoring Report (Part 1 of the SPMR) and these are outlined below. It should be stressed that the Representative is responsible for selecting the appropriate option, for ensuring that relevant measures are in place for implementing partner recording, and for designating an officer to carry out project control functions. The Representative must inform Headquarters (Desk and Financial Services) in writing on the option chosen initially, and/or when the option changes, for the proper recording and accounting of IPR information."

While guidance has been provided in Section 6.5 of Chapter 4, it is clear that field offices have not (a) always complied with the guidelines, and (b) systematically informed Headquarters of the option chosen.

UNHCR agrees with the need to strengthen its oversight of Field Offices in order to improve the situation with regard to SPMRs. It plans to take the following action in response to this audit recommendation:

ACTION	TIMEFRAME	RESPONSIBLE /UNIT
(1) Follow up with each country office to identify which option has been chosen according to Ch. 4	November 2001	Senior Resource Managers in each Bureau in consultation with Financial Resources Services

ACTION	TIMEFRAME	RESPONSIBLE /UNIT
(2) Review adequacy of measures in place through missions	Ongoing	(a) Financial Resources Services, Finance Section and Audit Focal point in collaboration with the Senior Resource Managers. (b) Inspector-General's Office; (c) UNHCR Audit Services-OIOS
(3) Inclusion of this as a specific measurement in the objectives and performance appraisal of Directors of Bureaux	February 2002	The Department of Operations under the direction of the Assistant High Commissioner will ensure implementation with the technical support of the Career and Staff Support Service

In parallel with this exercise the existing guidelines will be reviewed by the Division of Operational Support/ Programme Coordination and Operations Support Section (DOS/PCOS) with a view to providing more extensive procedural guidance on SPMR verification. In addition, Finance Section has developed a pro-active plan of action to monitor the balances recorded in the Project Expenditure Control Account (x.21) in the course of the current financial year. These combined activities should guarantee appropriate Financial Monitoring of implementing partner expenditures, and provide sufficient evidence that project expenditure has complied with the terms of the sub-project agreements.

III. RECOMMENDATION 11 (b)

3. Ensure that field offices review audit certificates received in respect of projects and follow up any significant issues arising (para. 38);

Measures Taken by the Administration

UNHCR has already implemented this recommendation. The revised UNHCR Manual, Chapter 4 Section 5.1 and Appendix 8(c), contains guidelines to field offices requiring them to inform Headquarters whenever they are in receipt of a report containing a qualified audit opinion. They are also required to regularly review the performance of the implementing partners. Whenever the performance is no longer satisfactory UNHCR field staff may apply a range of interventions in order to remedy the situation, such as training and coaching and additional technical assistance. Should these measures not yield positive results, the partner will be informed that due to the failure on their part to meet the quality criteria, UNHCR might be obliged to terminate (or not renew) the existing sub-agreement.

To further ensure that implementing partners have adequate accounting systems and financial records, UNHCR's Head of Financial Resources Service wrote to 42 major partners implementing projects with an aggregate value amounting to over US $ 1 million, requesting them to provide a description of their respective accounting systems in order to obtain assurance that the UNHCR

funds are accounted for properly. The responses received will be reviewed in cooperation with the UNHCR Audit Service, Office of the Internal Oversight Services (OIOS).

Management issues

IV. RECOMMENDATION 11 (c)

4. Establish for the Integrated Systems Project clearly defined, ranked benefits that are quantified as far as possible, in order to establish realistic milestones against which progress can be monitored (para. 64);

Measures Taken by the Administration

The Administration has suspended the implementation of the PeopleSoft (Enterprise Resource Planning) component of the Integrated Systems Project (ISP) in order to review the overall design and to ensure its compatibility with a Corporate Operating Model that is currently being defined. Wherever possible, realistic estimates at each phase of the Project will be costed and ranked. It is expected that some key benefits will arise sequentially from the replacement of vulnerable and deficient existing systems. Others, however, will only result from the ultimate integration of applications.

V. RECOMMENDATION 11 (d)

5. Establish and maintain a single line of project management through which staff report on all aspects of the Integrated System Project development (para. 81);

Measures Taken by the Administration

It is fully acknowledged that the frequent changes in the project governance structure have been a major problem over the past two years. The uncertainty surrounding accountability and reporting structures has been one of the key factors in the delays in implementing Phase 0. During Phase 0, based on a job description and terms of reference, a position was established for a longer-term Project Manager. Upon resumption of the ISP, the position will be re-advertised and all Project staff will report to the Project Manager, who in turn will report to a single Project Sponsor. This will enable quick decision-making and clear accountability.

VI. RECOMMENDATION 11(e)

6. Review the appropriateness of engaging in projects which are not of direct assistance to refugees, and routinely set clear milestones against which to measure progress and assess when its mission was complete (para. 97);

Measures Taken by the Administration

The issue of prioritisation of activities has been under examination by UNHCR at one time or another for the past 12 years. As part of his examination of UNHCR's operations, the new High Commissioner initiated a review, known as Action 1, to define UNHCR's core activities, particurlarly as regards

protection, and to examine UNHCR's assistance and emergency capacity, as well as the role of UNHCR's staff in carrying out its mission, in coordination with its partners.

The Action 1 review resulted in *Guidelines on priority-setting: Core and non-core activities*. In terms of UNHCR's engagement in projects which are not of direct assistance to refugees/returnees, the following categories and parameters have been defined:

No:	A. Categories of Operations	Core	Parameter
A.9	Reintegration operations (defined as longer-term development activities which are not necessarily limited to returnees and which focus on communities and infrastructure, rather than individuals)	No	If an exception is made, then (1) additional funding should be guaranteed for the duration of the operation; (2) it should be undertaken alongside, and in coordination with, development agencies; (3) it should be limited in time to a maximum of 18 months.
A.10	IDP operations	No	If an exception is made, then (1) it must be on the basis of IOM/87/FOM/91/97, as supplemented by the March 2000 Position Paper on IDPs; (2) additional funding should be guaranteed for the duration of the operation.

The above activities, now defined as non-core, come under a category known as "Special Operations". Rules and procedures for Special Operations have been drafted and are under review by senior management.

UNHCR accepts the need to review the appropriateness of engaging in projects which are not of direct assistance to refugees/returnees. It also accepts that projects should have clear milestones against which progress can be measured.

UNHCR plans to take the following action in response to this audit recommendation:

ACTION	TIMEFRAME	RESPONSIBLE PERSON/UNIT
(1) Finalise the Procedures for "Special Operations".	October 2001	Deputy High Commissioner; Division of Operational Support/ Programme Coordination and Operations Support Section. (DOS/PCOS)
(2) Incorporate the results of Action 1 into Section 4.2 (Country Operations Plan - COP) of the UNHCR Manual to provide guidance to the Field for 2003 COPs	December 2001	DOS/PCOS

ACTION	TIMEFRAME	RESPONSIBLE PERSON/UNIT
(3) Incorporate guidance on setting milestones into the *Guide for the Use of Workplans*	November 2001	DOS/PCOS

VII. RECOMMENDATION 11 (f)

7. Establish a suitable system to ensure that accurate information is maintained on the size and characteristics of the refugee population (para. 100);

Measures Taken by the Administration

Following the release of the final report on the *Study for scoping of Project PROFILE* conducted by Deloitte & Touche, the Population and Geographic Data Section (PGDS) submitted in mid-March 2001 a proposal from the Division of Operational Support (DOS) that outlined the following:

"(a) a request for the endorsement of project PROFILE as a strategic operational priority for the years to come; (b) the proposal provided the high-level cost implications for implementation of project PROFILE over a period of three to four years and (c) seeking agreement to initiate a request to the Operations Review Board (ORB) for release of funds from the 2001 Operational Reserve to start development and implementation of project PROFILE as envisaged in the study."

Taking into account the outcome of Actions 1, 2 and 3, and the current financial situation facing the Office, further work is required to clarify the scope of project PROFILE. The approach to the development and implementation of project PROFILE as originally envisaged under the Study, including determining a business case for technological investments proposed under the project, is therefore currently under review by senior management.

In order not to delay much needed process changes and improvements in performance in the area of registration and population data management, focus is being given to addressing the non-IT components and initiatives of PROFILE. To support this approach and in line with the Auditors' recommendation, a limited investment to move forward is currently under consideration as an alternative proposal for the remainder of 2001, by upgrading the existing legacy registration and case management systems, i.e. the Registration of Individual Cases System (RICS) and Field-Based Registration System (FBARS).

VII. RECOMMENDATION 11 (g)

8. Include clearly stated and quantified objectives and outputs in sub-projects agreements and produce workplans incorporating key milestones and target dates (para. 103).

Measures Taken by the Administration

The format of Sub-Project Descriptions attached to Sub-Agreements, was updated in late 1999. This incorporated the concept of objectives and

outputs. An up-date to the UNHCR Manual, Section 4.4 of Chapter 4 (Sub-Projects and Sub-Agreements) which covers this issue was released in November 2000, for implementation of project agreements in the year 2001.

UNHCR accepts the need to include clearly stated and quantified objectives and outputs in Sub-Project Descriptions. However, this is a new way of planning and replaces the earlier focus on activities and inputs. As such, it requires extensive training and follow-up reinforcement to ensure that the concept is understood. UNHCR also agrees that workplans are useful in specific situations (see next section) and should contain milestones and target dates.

UNHCR plans to take the following action in response to this audit recommendation:

ACTION	TIMEFRAME	RESPONSIBLE /UNIT
(1) Incorporate guidance on setting milestones and target dates into the *Guide for the Use of Workplans*	November 2001	Division of Operational Support/ Programme Coordination and Operations Support Section. (DOS/PCOS)
(2) Incorporate the concept of workplans, milestones and target dates into the Operations Management Learning Programme, when it is reviewed in 2002 after the pilot testing	June 2002	DOS/PCOS
(3) Reinforce the concept of objectives, outputs, workplans, milestones and target dates in the strategic planning workshops	February - March 2002	DOS/PCOS

Previous recommendations not fully implemented

VIII. RECOMMENDATION 8 (a)

9. Make the preparation of work plans an integral part of the project-planning and monitoring process (1995, 1996, 1998 and 1999);

Measures Taken by the Administration

UNHCR agrees that workplans can be an important element of project planning and monitoring. The UNHCR Manual, Section 4.3 (November 2000 version) on Project Submissions, thus specifies the following:

" Workplans (Annex C)

5.1 All offices and Headquarters Units are encouraged to prepare and use workplans at the appropriate level (normally either at the project level or at the sub-project level). However, the submission of a workplan at the

project level is an optional requirement which depends on the implementation requirements of the project. Workplans are project management tools. As such, they aid managers by highlighting critical points in the project implementation process that might require special intervention or monitoring. They also provide a written framework, which should be agreed by all partners, showing the sequence and timing of activities and inputs necessary to achieve the specific objectives of the project. Typical projects requiring the establishment of workplans are settlement and camp relocation projects, infrastructure development projects, and institution-building projects. In these cases, the availability of a realistic workplan that is regularly adjusted to reflect the evolving situation can determine the success or failure of the overall project. On the other hand, projects which revolve around routine and recurrent activities would normally not require the creation of a detailed workplan. Examples include ongoing institutional support and service activities such as waste disposal and the operation of health posts and feeding centres.

5.2 A workplan may cover one or several years according to the nature of the project. It serves to provide a schedule of implementation for the project and to establish milestones that can be used to monitor progress. A workplan should contain the following elements:

the task to be accomplished (for all Outputs listed under each Sector Activity contained in Section 5 of the Project Description); the time frame (i.e. which months of the year, or which year); and the implementing partner or UNHCR unit responsible for carrying out the task."

Furthermore, Section 4.4 (November 2000 version) on Sub-Projects and Sub-Agreements provides the following additional guidance:

"8. Workplan (Annex C)

8.1 All offices are encouraged to use workplans, especially at the sub-project level. The workplan should provide a schedule for implementation of the Sub-Project, and establish milestones to monitor progress. A workplan allows planners to highlight critical points in the Sub-Project implementation process to assist in management and monitoring of implementation. These points will relate directly to crucial activities (e.g., the delivery of food, the completion of road repairs, and the distribution of shelter materials), which could determine the success or failure of the overall sub-project. For certain activities, however, the establishment of a workplan might not be logical or possible, or it might not assist in sub-project management and monitoring. Relevant examples would be legal assistance activities and resettlement of individual cases, and the provision of routine services in a camp environment, such as teaching and garbage collection.

8.2 Where applicable, workplans may cover one or more years. A sample format for a workplan can be found in Appendix 3. Offices wishing to use special software to develop their workplans are requested to contact the OMS Section (user-id: HQOMS) in order to discuss their needs and obtain the required electronic tools. If both parties agree not to issue a workplan as part of the Sub-agreement, this should be explicitly stated under Section 3 "Implementation Arrangements" of the Sub-Project Description."

In UNHCR's view, workplans can be a useful tool for monitoring implementation of projects and sub-projects. However, their usefulness is limited if applied to recurrent activities which are of a repetitive nature. The above components of Chapter 4 provide examples where workplans could be useful both at the project level (e.g. settlement and camp relocation projects, infrastructure development projects, and institution-building projects) and at the sub-project level (e.g., the delivery of food, the completion of road repairs, and the distribution of shelter materials).

Efforts to develop new software to facilitate the establishment of workplans in the field have been put on hold for the time being as a result of the current suspension of the Integrated Systems Project. However, the use of existing software (MS Project and MS Excel) for workplanning is still possible. An internal review of the use of workplans concluded that there is insufficient guidance provided on (a) when workplans serve a useful purpose, and (b) how to go about establishing a workplan. Accordingly, pending the development and introduction of software for workplanning purposes, the following action is planned:

ACTION	TIMEFRAME	RESPONSIBLE /UNIT
(1) Production of a *Guide for the Use of Workplans* when preparing Projects and Sub-Projects.	November 2001	Division of Operational Support/ Programme Coordination and Operations Support Section. (DOS/PCOS)
(2) Incorporation of the Guide in step-by-step guidance as part of a Task-Based Guidance CD-ROM	February 2002	DOS/PCOS

IX. RECOMMENDATION 8 (b)

10. Ensure complete and accurate disclosure of non-expendable property and conduct physical stock checks on a regular basis (1996, 1997, 1998 and 1999).

Measures Taken by the Administration

As previously explained to the Board, the management of assets in UNHCR is a decentralised process. In the field, each country operation is responsible for providing a complete and accurate database of the assets under their care and that of implementing partners. At Headquarters, asset management is the responsibility of the Supply Unit and Building Services within the Supply Centre. The Asset Management Unit, which is also now within the Supply Centre and has primary responsibility for the purchase of assets, is responsible for compiling the figures presented in the Financial Statement.

In May 2000, UNHCR introduced a simplified, "user-friendly" programme that operates in the Windows environment known as AssetTrak. The field's response has been very positive - confirming the ease of use and simplicity of the programme. The rollout event was used to remind all responsible parties of the requirement to conduct an annual physical check of assets.

As part of the 2001 year-end closure process UNHCR will once again reinforce instructions issued to field offices to ensure complete and accurate disclosure of non-expendable property. UNHCR will also seek to have field offices confirm the accuracy of their respective inventories during the fourth quarter of 2001, based on physical stock checks, and provide an update for use in consolidating the figures for presentation in the financial statements. Field office managers have been reminded of their responsibility in this regard.

Other Recommendations

X. RECOMMENDATION Para 53

11. The Board recommends that UNHCR exert tighter control over the level of outstanding travel advances to reduce the extent to which such amounts may have to be written off in the future.

Measures Taken by the Administration

This recommendation has been implemented. Instructions were issued on 25 July 2001, informing staff members that as from 1 October 2001, automatic deductions from salaries would be implemented in all cases where the travel claim in support of the travel advance has not been submitted 90 days after the last day of official travel.

XI. RECOMMENDATION Para 70

12. The Board recommends that UNHCR make future software provision only after a fully costed assessment of any modifications needed.

Measures Taken by the Administration

The auditor's recommendation has been duly noted and will be implemented for future software acquisition.

Given UNHCR's unique nature and work environment it was necessary to complete a gap analysis to enable it to specify requirements to the competing implementers in as much detail as possible and to ensure that these requirements were clearly understood and costed. PeopleSoft was selected as the preferred product, based upon a diligent review of functionality, cost and compliance with technology requirements. This purchase allowed UNHCR to install the product on site, prepare situation-specific scenarios with functional staff and document changes that met their exact needs. Such a study could not be implemented without having first selected the product based upon best fit for user requirements. UNHCR believes that the recent acquisition of the Peoplesoft package to implement the Integrated Systems Project was not contrary to the auditor's recommendation.

XII. RECOMMENDATION Para 87

13. The Board recommends that ISP staff costs be recorded to an ISP project account code to enable a comprehensive assessment of project costs.

Measures Taken by the Administration

A list of all staff (full and part-time) associated with the ISP has been compiled, and an analysis completed to make the necessary changes to charge their costs to the ISP account code. Due to the suspension of the PeopleSoft component of the ISP until the completion of a Corporate Operating Model, most ISP staff have been temporarily returned to their originating sections. The planned changes in account codes were also suspended pending a decision on the future direction of the project.

XIII. RECOMMENDATION Para 90

14. The Board recommended, and UNHCR agreed, that project management should set achievable delivery targets based on a realistic appraisal of the complexity of the project and the availability of resources.

Measures Taken by the Administration

UNHCR accepts this recommendation and expects that with both a very clear project management structure (see reply to recommendation 11(d)) and active executive sponsorship, realistic timetables of deliverables and required resources will be developed and adhered to.

XIV. RECOMMENDATION Para 105

15. The Board therefore recommends that UNHCR develop an integrated framework of performance reporting which would clearly show achievement against objectives.

Measures Taken by the Administration

UNHCR is in the process of examining the issue of performance reporting within the larger context of results-based management or performance management within the Operations Management System. UNHCR's operations management cycle consists of the four elements of Plan, Implement, Monitor, and Evaluate. These four elements are inter-linked and reporting is an integral part of the system.

While new and automated systems can clearly support improved performance management, they will not by themselves bring about the required improvements. A comprehensive effort is required to ensure that the linkages between the four elements are strengthened and that various sub-elements, such as resource allocation and reporting, are integrated.
UNHCR accepts the need to have an integrated framework of performance reporting, and will pursue this within the larger context of strengthened performance management within the Operations Management System.

UNHCR plans to take the following action in response to this audit recommendation:

ACTION	TIMEFRAME	RESPONSIBLE PERSON/UNIT
Undertake an internal review of results-based management/performance management within the Operations Management System, and recommend a comprehensive set of improvements for implementation.	January 2002	Deputy High Commissioner

XV. RECOMMENDATION Para 107

16. The Board recommends that UNHCR establish the numbers and status of staff belonging to projects which are fully funded by UNHCR and are designed to supplement local staff numbers, and assess any consequent liabilities which may accrue to the organization.

Measures Taken by the Administration

In February 1991, FOM/23/1991 sought information from field offices on the use of implementing partner staff "seconded to and/or under the supervision of UNHCR in the Field". The FOM stated, inter alia:

(a) UNHCR's policy is not to expand this type of contractual arrangement. Rather, UNHCR will seek to assure the services presently being provided by agency contracted staff through full delegation of responsibilities to implementing partners, wherever this is possible, or by making provision for posts in UNHCR staffing tables;

(b) The objective is to contain this type of contractual arrangement and where possible reduce the number. If the expanded use of such arrangements is considered the only solution to meeting UNHCR operational demands, then Headquarters' approval must be obtained.

During the early to mid-1990s, UNHCR made a concerted effort to phase down this type of "staffing" arrangement and the global numbers were reduced. In October 1997, the then Inspection and Evaluation Service (IES) undertook a review of project staff and issued a document titled: *Review of UNHCR's Project Staff Arrangements*. The report contained a number of pertinent findings and recommendations: there is a need to review how effectively those recommendations have been implemented.

In April/May 2001, the UNHCR Audit Services of the Office of Internal Oversight Services (OIOS) conducted a review of UNHCR project personnel, commonly referred to as "UNHCR project staff", and their final report has now been received. The following points constitute the main findings and recommendations of OIOS:

The subject of "project personnel" has been a controversial issue for years. It should now be effectively addressed and not postponed, or forgotten about as appears to have been the strategy in the past, with previous recommendations never implemented. Positive action is now required.

UNHCR's 1991 policy of not expanding this type of "staffing" arrangement should be revived and updated with an aim to phase out "project staff". Once re-introduced, compliance needs to be assertively pursued and closely monitored.

UNHCR accepts the need to deal comprehensively with the issue of project staff. As such, it is preparing a policy to phase out project staff over a period of two years through the adoption of a number of measures.

UNHCR plans to take the following action in response to this audit recommendation:

ACTION	TIMEFRAME	RESPONSIBLE PERSON/UNIT
(1) Issue a new policy on UNHCR project staff with the goal of phasing out the arrangement over a two year period	October 2001	Deputy High Commissioner
(2) Establish the actual number of UNHCR project staff in each location	December 2001	Field Representatives; Senior Resource Managers in each Bureau; DOS/PCOS
(3) Establish implementation plans for the phase-out	In 2002	Field Representatives; Senior Resource Managers in each Bureau; DOS/PCOS
(4) Monitor implementation and ensure phase-out	Ongoing to December 2004	Senior Resource Managers in each Bureau; DOS/PCOS Budget Section